



## **Follow-Up Report**

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### **Austin Energy Account Collections**

**April 2003**

**Office of the City Auditor**  
Austin, Texas

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On April 22, 2003, the Office of the City Auditor presented this audit report to the City Council Audit and Finance Committee. The Committee accepted the audit report.

This report is available in our office or at our website, <http://www.ci.austin.tx.us/auditor>, in pdf format. You may also request additional hard copies through the website or by email at [oca\\_auditor@ci.austin.tx.us](mailto:oca_auditor@ci.austin.tx.us). Please request Audit No. AU03313.



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# City of Austin

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April 22, 2003

To: Mayor and Council Members

From: Stephen L. Morgan

Subject: Austin Energy Account Collections Follow-up Audit Report

Attached is our follow-up audit report on recommendations made in January 2002 by McConnell Jones Lanier & Murphy (MJLM) concerning Austin Energy's Account Collections. We assessed 14 of the 39 recommendations made by MJLM and found four have been implemented, five are underway, and one is planned. Austin Energy is not currently planning to implement four of the 14 recommendations we assessed.

Austin Energy has been working diligently to implement the recommendations and has been making good use of the consultant's report. However, we did find some billing errors that resulted in a recovery of approximately \$270,000, from AE's collection agency.

We have made six recommendations which address additional internal controls over the collections process. Management has concurred with five of the recommendations and partially concurred with one.

We appreciate the cooperation we have received from staff and management at AE and look forward to our continuing efforts to improve the utility.

A handwritten signature in black ink, appearing to read "Stephen L. Morgan".

Stephen L. Morgan, CIA, CGAP, CFE, CGFM  
City Auditor

## **AUSTIN ENERGY ACCOUNT COLLECTIONS FOLLOW-UP COUNCIL SUMMARY**

This report presents findings and recommendations from our follow-up audit of recommendations made in January 2002 by McConnell Jones Lanier & Murphy (MJLM), concerning Austin Energy's Account Collections.

In the year since MJLM made their 39 recommendations, Austin Energy has made progress implementing improvements and continues work to make further changes. These improvements fall into four categories: credit and collection processes, technology implementation, consumption control, and credit and collections policy.

### Credit and Collection Processes

When reviewing one recommendation, we identified discrepancies in a vendor's invoice that led to a recovery of approximately \$270,000. We also found that AE has:

- Reduced the number of days between when an account becomes delinquent and when it is referred to the collection agency,
- Implemented several Citywide initiatives that should have an impact on reducing delinquent accounts in the seven highly delinquent zip codes in addition to the rest of the City, and
- Corrected a query error thereby abolishing the practice of sending delinquency notices to inactive accounts with insignificant balances.

### Technology Implementation

We found that AE has:

- Implemented the use of LexisNexis to confirm customer identities and prevent false identification numbers from being used when creating new customer accounts,
- Run queries to match inactive accounts to active accounts, although research efforts to link possible matches is progressing slowly, and
- Made some technology improvements while further analyzing major system enhancements.

### Consumption Control

- AE has undertaken efforts to improve detection of meter tampering and current diversion.

### Credit and Collection Policy

- AE has drafted proposed changes to the Utility Service Regulations that would place more stringent requirements on customers wishing to re-connect service.



## **ACTION SUMMARY**

### **Austin Energy**

### **Account Collections Follow-Up**

| <b>Rec. #</b> | <b>Recommendation Text</b>  | <b>Management Concurrence</b> | <b>Proposed Implementation Date</b> |
|---------------|---|-------------------------------|-------------------------------------|
| 01.           | The AE Customer Service Process Manager should continue to obtain electronic statement files from the collection agency, along with paper documents, to quickly and easily review all charges and research the accounts that fall into the higher fee categories. | Concur                        | Implemented                         |
| 02.           | To facilitate review of charges, the AE Customer Service Process Manager should consult with individuals in the AE's IT division to determine if there is a CIS query output that could be matched to electronic statements provided by the collection agency.    | Concur                        | June 1, 2003                        |
| 03.           | To ensure all accounts have a discontinued date or date of last charge, the AE Customer Service Process Manager should conduct an audit of accounts that are transmitted to the collection agency periodically.   | Concur                        | May 1, 2003                         |

| <b>Rec. #</b> | <b>Recommendation Text</b>   | <b>Management<br/>Concurrence</b> | <b>Proposed<br/>Implementation<br/>Date</b> |
|---------------|--|-----------------------------------|---|
| 04.           | The AE Customer Service Process Manager should evaluate the cost/benefit of temporarily assigning one full-time employee to the project of matching inactive and active accounts and transferring balances when appropriate to reduce the number of inactive accounts with inactive delinquent balances. | Partially Concur                  | Ongoing                                     |
| 05.           | The AE Customer Service Process Manager should develop and institute a strategy for transferring inactive account balances to active account balances when appropriate for commercial customers and property management companies.   | Concur                            | Ongoing                                     |
| 06.           | The AE Revenue Measurement and Control Process Manager should ensure that instructions for consumers who wish to report meter tampering include appropriate contact information and are integrated in educational campaigns to prevent meter tampering.  | Concur                            | June 16, 2003                               |

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## **BACKGROUND**

### **Consultant's Collection Process Review**

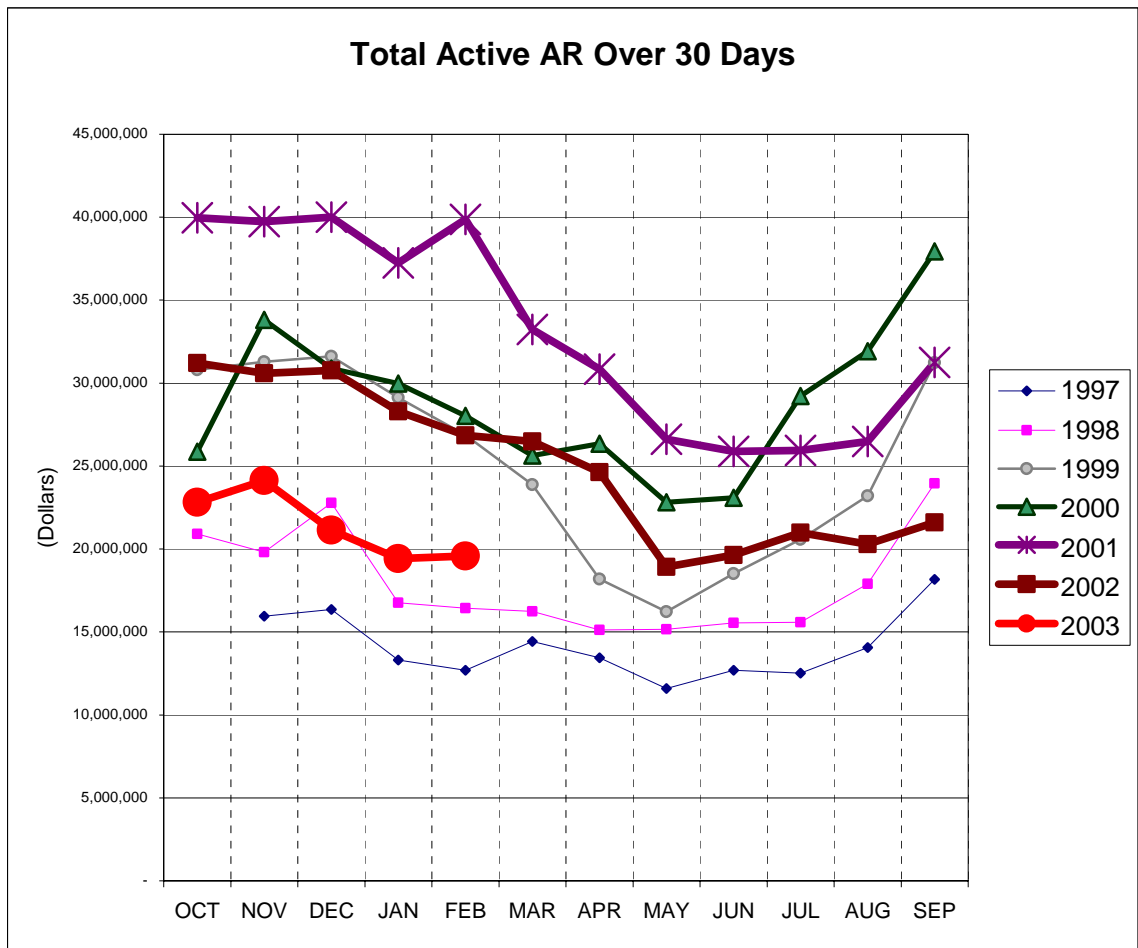
In response to a management letter comment of the Comprehensive Annual Financial Audit of the City of Austin, Austin Energy (AE) contracted with McConnell Jones Lanier & Murphy (MJLM) to determine ways in which the utility could improve its collections rate and thereby reduce its bad-debt ratio. MJLM issued its report with 39 recommendations that AE could implement to improve collections. AE prioritized these recommendations according to which would have the most immediate impact on bad debt and began to pursue implementation.

### **Trends in the Balances of Accounts Receivable and Bad Debt Expense**

Active accounts with receivables grew to a peak in 2001, and have been trending downward in 2002 and 2003. See Exhibits 1 and 2 for the total value of active accounts with receivables over 30 and 60 days.

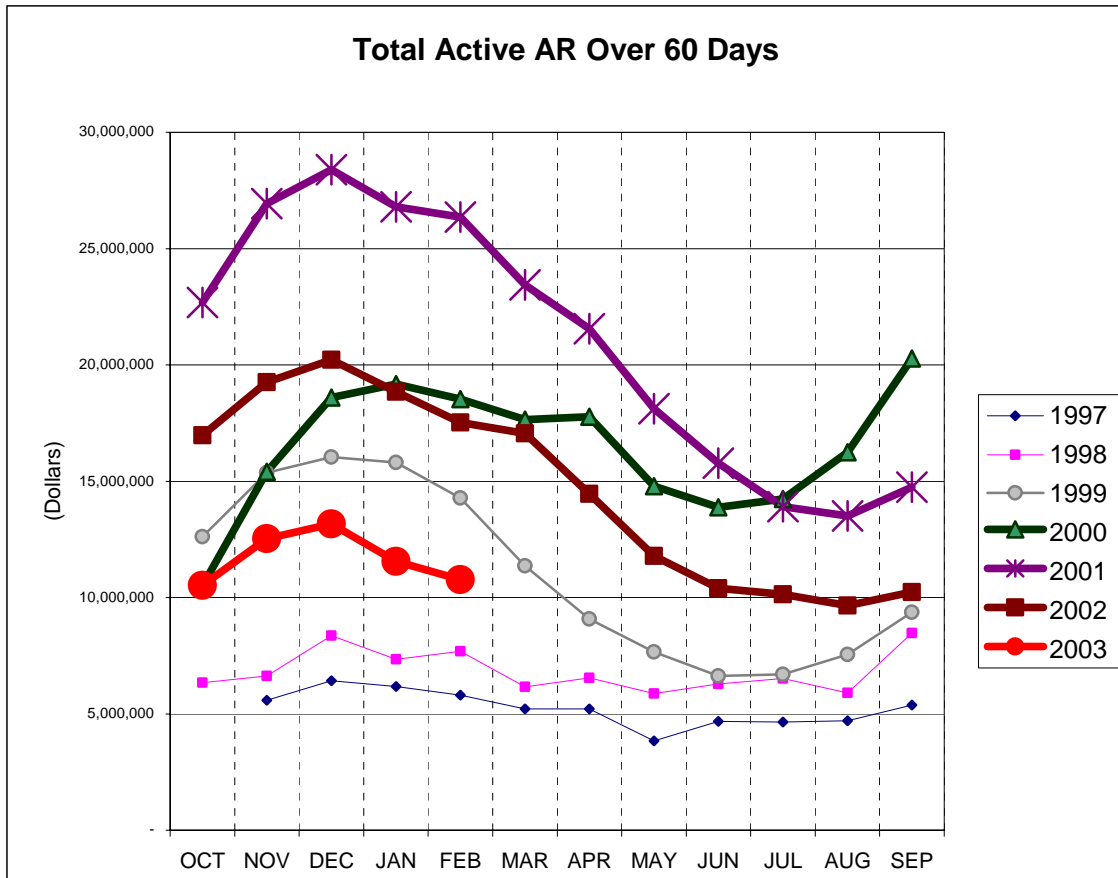
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**EXHIBIT 1**  
**Trends of the Total Value of Active Accounts with**  
**Receivables Over 30 Days for FY 97 - FY 03**



SOURCE: Unaudited AE data of total active accounts with accounts receivable that have aged over 30 days.

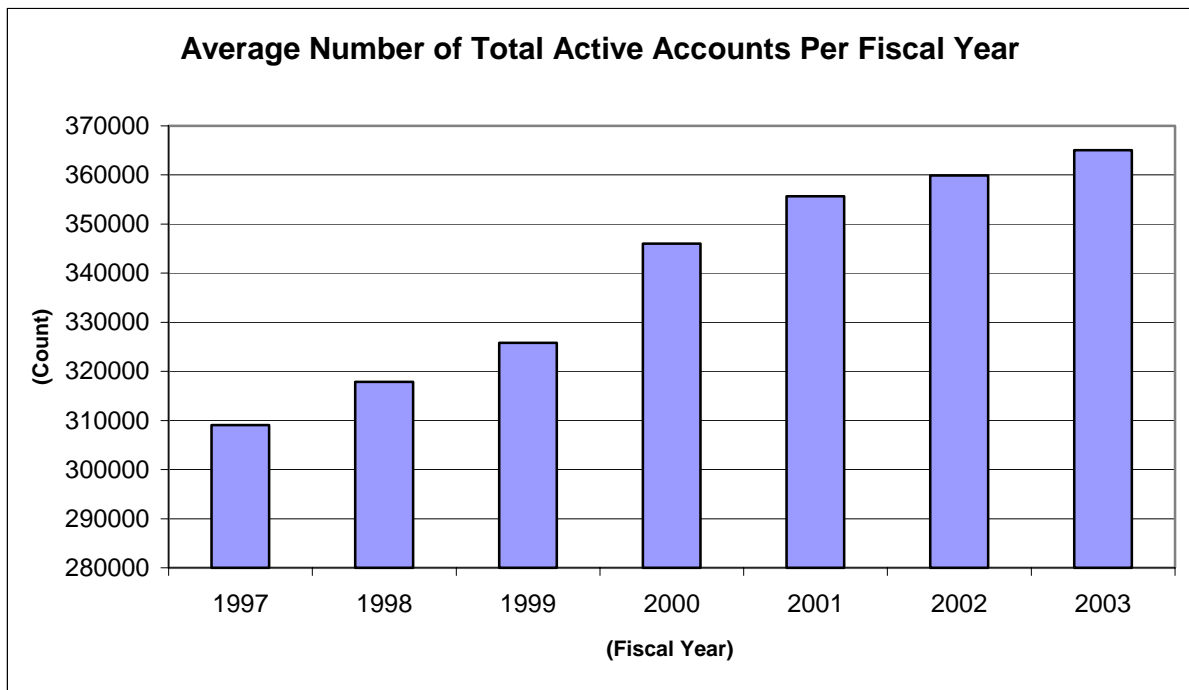
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**Trends of the Total Value of Active Accounts with**  
**Receivables Over 60 Days for FY 97 – FY 03**



SOURCE: Unaudited AE data of total active accounts with accounts receivable that have aged over 60 days.

Exhibit 3 shows trend information on the number of active accounts. This exhibit demonstrates that the downward trend in the active accounts with receivables is not attributable to a decrease in the number of active accounts. In fact, the number of active accounts has increased over the past few years. The value of accounts receivable over 30 days as a percentage of total accounts receivable has ranged from approximately 21 percent in September 2002 to approximately 44 percent in November 2000. These percentages highlight the significance of AE's past due accounts in relation to their total accounts.

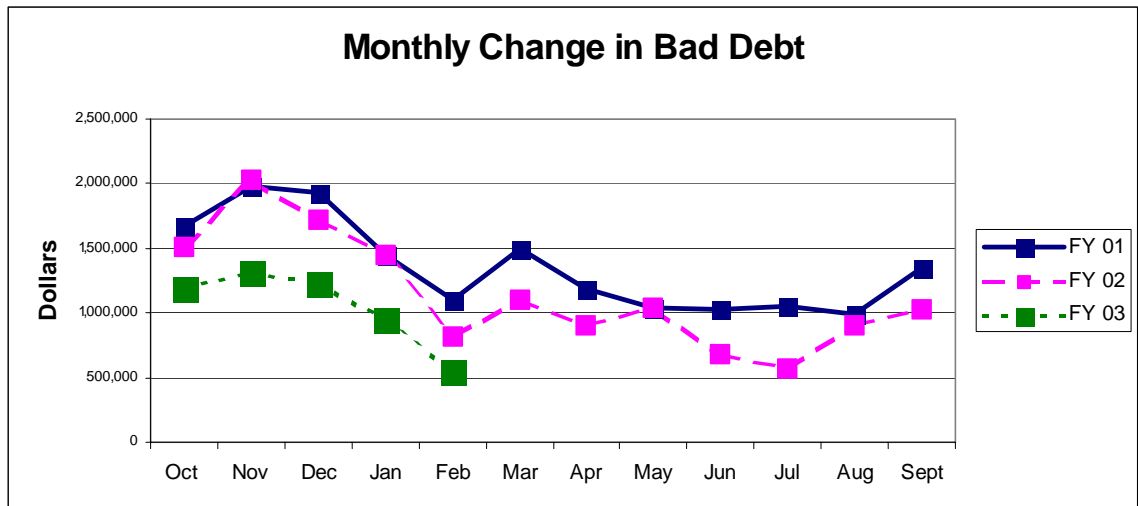
**EXHIBIT 3**  
**Average Number of Total Active Accounts for FY 97 – FY 03**



SOURCE: Unaudited AE data of number of active accounts. Data for FY 97 – FY 99 was taken from the Land Information System reports. Data for FY 00 – FY 03 (as of 3/31/03) was taken from the Customer Information System.

Austin Energy also tracks the monthly change in the level of bad debt. The change or volatility in the levels of bad debt has decreased in recent years. Since the bad debt expense is cumulative, positive impacts on collections should result in less being added to the bad debt expense. See Exhibit 4 for trend information on changes to bad debt expense.

**EXHIBIT 4**  
**Changes in Levels of Bad Debt for FY 01 – FY 03**



SOURCE: Unaudited AE data of bad debt levels (accounts that have aged over 90 days).

## **OBJECTIVE, SCOPE AND METHODOLOGY**

### **Objective**

Our objective for this audit was to follow up on selected recommendations from a previous consultant's review of the Austin Energy (AE) collections process.

### **Scope and Methodology**

The audit team selected 14 of the 39 recommendations from the McConnell Jones Lanier & Murphy (MJLM) review of AE's collection process that was issued in January 2002. An additional recommendation was reviewed and reported confidentially. We selected these recommendations for testing based on a risk and vulnerability assessment.

In order to assess the status of these 14 recommendations, we met with managers and staff throughout the Customer Care and Marketing Division of AE. In addition, we conducted some queries and data analysis using information collected from AE's billing system, the Customer Information System (CIS). We reviewed policies and procedures, contracts, and CIS queries and batches that facilitate the collections efforts. In addition, we observed customer service representatives take a variety of calls, including calls to set up new service, pay off previous debts, and create deferred payment arrangements.

This audit was conducted in accordance with generally accepted governmental auditing standards.

## **FOLLOW-UP AUDIT FINDINGS**

Austin Energy (AE) has been working to implement many of McConnell Jones Lanier & Murphy's (MJLM) recommendations since January 2002. Of the 14 recommendations we audited, four have been implemented, five are underway, one is planned, and AE did not concur with four. See Appendix B for a list of the recommendations and their status. MJLM's review focused on four processes: credit and collections processes; technology implementation; consumption control; and credit and collections policy.

### **Austin Energy has strengthened credit and collections processes, although we did identify instances where the collection agency had overcharged the utility.**

In the credit and collections processes area, we found that the collection agency had overcharged AE. In addition, AE has reduced the number of days between when an account is delinquent and when it is sent to collections. Furthermore, AE has implemented initiatives to increase collections Citywide, and no longer sends delinquency notices to accounts with small balances.

**Although AE has been checking some line item charges on invoices submitted by the collection agency, we identified discrepancies in charges that led to a recovery of \$271,561.** MJLM recommended that AE:

Conduct a periodic audit of the collection agency contract to ensure that the collection agent is not holding accounts longer for the purpose of obtaining a higher commission.

Although AE did not concur with this recommendation because the collection agency's fees are not based on the length of time they hold an account, MJLM did provide some implementation strategies that AE could have implemented.

One suggested strategy was that the Customer Service Process Manager for Management Control should develop a method for regularly auditing the results of the collection agency's work on specific accounts and the corresponding fees charged, to ensure compliance with the contract terms. However, personnel at AE have not conducted a total review of invoices due to the large volume of accounts that are reported on each invoice. While AE has been spot-checking invoices, in our review, we found some accounts where the collection agency overcharged AE. The



overcharges occurred because the discontinued date apparently did not transmit from AE to the collection agency as expected. The discontinued date is the date an account is classified as inactive and is used by the collection agency to calculate their fees. The collection agency's system was set up to automatically default to the highest fee category when lacking the discontinued date.

Since the discrepancies were brought to management's attention, AE has worked diligently to ensure that all incorrect charges were identified. Specifically, AE asked the collection agency to audit all accounts that had been submitted to them by AE or the Utility Customer Service Office (UCSO). To address this cause of the overcharges, AE now includes check totals on all data fields including the discontinued date field when the data is transmitted. In addition, the collection agency will now furnish electronic statement files to AE, along with paper documents to facilitate review of all fees charged by the collection agency.

The collection agency found \$271,561 in overcharges since 1997 when the contract was first established. The majority of the overcharges, \$245,962.76, occurred under the previous contract that the collection agency had with the UCSO. The collection agency attributes these to a Y2K problem that has now been corrected. The remaining overcharges of \$25,598.45 have happened during the current contract with AE. The collection agency attributed these overcharges to programming errors that they claim have been corrected. AE will be receiving a credit memo from the collection agency that they can apply to the remainder of the contract.

## **Recommendations**

01. The AE Customer Service Process Manager should continue to obtain electronic statement files from the collection agency, along with paper documents, to quickly and easily review all charges and research the accounts that fall into the higher fee categories.

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**MANAGEMENT RESPONSE: CONCUR**

Austin Energy has incorporated the review of electronic statement files into the verification of collection agency billings. In addition, the contract and project management duties associated with this process have been split between Credit Collections and AE's Contract Management Section to create a clear separation of duties. Credit Collections will continue to perform the project management duties associated with the process while Contract Management will handle all contractual issues.

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02. To facilitate review of charges, the AE Customer Service Process Manager should consult with individuals in the AE's IT division to determine if there is a CIS query output that could be matched to electronic statements provided by the collection agency.
- 

**MANAGEMENT RESPONSE: CONCUR**

Meetings have been scheduled with AE's IT staff to discuss the feasibility of reformatting the electronic file so it can be used as a comparison file against CIS.

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03. To ensure all accounts have a discontinued date or date of last charge, the AE Customer Service Process Manager should conduct an audit of accounts that are transmitted to the collection agency periodically.
- 

**MANAGEMENT RESPONSE: CONCUR**

We have requested a query from AE's IT section that identifies any missing data fields so that they can be populated and verified prior to accounts being referred. This additional step should serve as a verification procedure within the process thus eliminating the need for periodic audits.

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**AE has implemented some of MJLM's suggestions resulting in a 56-day reduction between delinquency and referral to the collection agency and is considering further changes.** MJLM recommended (#5) that AE reduce the timeline between when an account is delinquent and when it is referred to a collection agency. AE concurred with this recommendation and identified it as a priority to implement due to its impact on the reduction of bad debt. Appendix C shows MJLM's exhibit titled *Elimination of Activities in Current Collections Process* highlighting the specific activities that MJLM suggested AE reduce.

We found that overall AE has eliminated about 56 days from the timeline and is looking for ways to further decrease account transfer time. The monitoring of accounts for consumption or payment after disconnect has been reduced by 30 days. Furthermore, the second delinquency notice and its associated grace period have been eliminated (26 days).

Although AE is now sending accounts to the collection agency earlier, thereby providing the agency with accounts that are easier to collect, AE has not negotiated a lower commission fee. Managers at AE state they wish to balance the desire between sending accounts to the collection agency as soon as possible so that the agency is likely to be more successful and sending accounts too early, allowing the collection agency to obtain a fee on an account that AE might have collected with its own workforce.

**Even though several recent initiatives may improve collection efforts in the seven highly delinquent zip codes, AE is not specifically targeting the seven zip codes, but rather the entire City.** MJLM conducted a demographic analysis of delinquent accounts across the City of Austin. They found that more than one-half of the over 90-day delinquent accounts were focused in seven zip codes. They recommended that AE:

Increase collection efforts in the seven highly delinquent zip codes identified in the demographic analysis.

AE concurred with this recommendation and identified this as a high priority for implementation.

AE has implemented three important changes in the way it conducts business. These three recent initiatives are: The Landlord Partnership Program (LLPP), Automated Meter Reading (AMR) technology, and outbound collection calls (calls from AE to delinquent customers). Each

of these initiatives should have a positive effect on collection efforts in the seven zip codes.

The LLPP transfers responsibility from the landlord of multi-family complexes to the tenant for establishing or disconnecting services and ensures more accurate move-in/move-out dates. In addition, having direct contact with the tenant allows AE to obtain better data resulting in easier collection efforts. The LLPP started on October 15, 2002, and it is too soon to determine the actual effects this program will have on collection efforts.

AMR technology helps ensure timely and accurate readings resulting in more accurate billing. AMR technology was recently installed at some apartment complexes in six of the seven highly delinquent zip codes. The technology allows AE to conduct “real time reads” and allows information to be provided instantaneously to the billing group. This facilitates quick final billing when customers move out of an apartment. The installation and use of AMR is too recent to determine how it will impact the seven zip codes.

Outbound collection calls are being conducted regularly across the City, focusing on both residential and commercial customers who have the largest and oldest past due balances.

**Managers at AE discovered and corrected a query error to eliminate the practice of sending delinquency notices on inactive accounts with insignificant balances.** MJLM identified a number of delinquency notices that were sent to people with inactive accounts and insignificant balances (specifically under \$10.00) and recommended that AE abolish this practice. AE concurred and implemented this recommendation quickly by tracing the problem to a billing system setting. With a programming change to the system, delinquency notices are now sent only to inactive customers who owe \$25.00 or more.

**While Austin Energy has made several changes by implementing new technology, other technological changes are on hold pending further analysis.**

We found that AE is using LexisNexis to verify information about a customers' identification maintained in the billing system. In addition, AE has run a query to match inactive and active accounts to reduce the number of delinquent inactive accounts. AE has also purchased new

computers to decrease processing time and is considering other recommended technology changes.

**To confirm identities and help prevent false identification numbers from entering CIS, Customer Service Representatives are using LexisNexis to validate identification information on new accounts and re-connects due to nonpayment.** MJLM recommended that AE:

Incorporate into future new systems or CIS system modifications a requirement that the system perform a check of active versus inactive accounts and verify a customer's identity through LexisNexis.

While AE did not concur with this recommendation since it would require changes to the billing system, they did recognize its potential to impact the level of bad debt. Therefore, AE call takers are actually using LexisNexis separately during calls to verify critical information.

When a customer calls to establish new service or re-connect service that has been disconnected due to nonpayment, a Customer Service Representative (CSR) verifies the caller's identity through LexisNexis using either their social security number or drivers' license number. If the CSR is unable to verify the caller's information, the CSR asks the caller to come, in person, to AE's East Branch office to set up services.

In the future, AE plans to verify the identity of all persons who contact the center, not just calls for new service or re-connects due to nonpayment. Verifying all customers' identity helps detect and weed out bogus social security numbers or drivers' license numbers in CIS. If the customer does not provide a valid identification number, their services can be disconnected. Basically, a customer could call to inquire about their account balance and end up having to resolve balances from previous accounts (which AE could find once the customer's correct identification number is established).

We observed a few call takers to see how they set up new accounts, re-connect service, and use LexisNexis. The CSRs were adept at using LexisNexis to confirm identification information when creating new accounts and re-connecting service after disconnects. During the phone call, the CSRs also check inactive accounts for matches to social security and drivers' license number. One AE staff member took us through some examples looking for possible account matches to show us how LexisNexis is used to research the accounts.

**Austin Energy's efforts to match inactive accounts to active accounts are underway, but are progressing slowly.** MJLM also recommended that AE:

Run a query that matches active and inactive accounts to identify opportunities to collect inactive balances from active customers.

AE concurred with this recommendation and prioritized it as one that would have an immediate effect on the reduction of bad debt.

A query was run that matches active and inactive accounts. Currently, AE is using the query to pursue residential customers and has not decided how to handle commercial customers or property management companies. These accounts are manually removed from the results of the query. In addition, we identified questions concerning the logic of the query rules that have since been addressed. We are uncertain what impact these illogical rules may have had on the query results, but believe it to be minimal and do not think it diminished the value of the work that is already underway.

The Customer Service Process Manager has stated that AE is considering options to speed up this process, such as outsourcing the job of matching inactive and active accounts or reallocating staff.

## **Recommendations**

04. The AE Customer Service Process Manager should evaluate the cost/benefit of temporarily assigning one full-time employee to the project of matching inactive and active accounts and transferring balances when appropriate to reduce the number of inactive accounts with inactive delinquent balances.

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**MANAGEMENT RESPONSE: PARTIALLY CONCUR**

We understand the importance of consolidating old account balances and current accounts and believe this undertaking to be extremely valuable. On average over the last 15 months, we have transferred over \$638,000 per month. However, the volume of transfers has significant impact on the Contact Center, increases the number of deferred payment agreements, administrative hearings, and increases active accounts receivable. We therefore feel that the assignment of one full-time employee to perform this task would not be in the best interest of AE. We are however developing a plan to concentrate on transfers that will balance negative impacts with positive outcomes.

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05. The AE Customer Service Process Manager should develop and institute a strategy for transferring inactive account balances to active account balances when appropriate for commercial customers and property management companies.
- 

**MANAGEMENT RESPONSE: CONCUR**

The transferring of inactive accounts balances to active accounts is already underway. Several property management companies and major apartment complexes have been reconciled and the accounts have been paid. We are working on large industrial accounts in conjunction with the Key Account Reps. We propose to implement a similar procedure with the Small Commercial Team and with the new multi-family team.

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**While some recommended technology changes have been made, AE management is in the process of creating a CIS review team to examine different technology options in light of the changing electric utility marketplace.** MJLM recommended that AE:

- Install additional random access memory in Credit and Collections Department personal computers to enhance processing speed, and
- Incorporate billing, payment processing, and credit/collection technologies into future systems or enhancements to the current system.

AE concurred with the recommendations implementing the additional processing speed and studying enhancements to the current system. New personal computers were purchased for the credit and collections division, increasing random access memory and processing speed.

As part of the second technological recommendation, MJLM made several suggestions of specific technological changes. They include:

- Using a billing system that tracks and edits delinquent customers, according to established criteria, and automatically sends a delinquency notice if payment has not been received by the due date.
- Offering electronic payment options to customers, including online payments and wire-transfer options.
- Developing a web-based customer contact center that allows customers to view and pay their accounts online, as well as request a Deferred Payment Arrangement online.

The Vice President of Customer Care and Marketing is in the process of putting together a CIS review team to look at these and other options and the cost/benefit of making changes to CIS. Not only will this team take into consideration suggestions made by MJLM, but also other requirements if AE was to opt in or be forced into retail competition.

### **Efforts are underway to improve controls over illegal consumption of power and the associated loss of revenue.**

AE is undertaking a systematic examination of its current diversion and revenue protection program.

**Improvements are underway which should result in increased detection of current diversion through meter tampering and theft of service.** MJLM made two recommendations focused on current diversion and meter tampering. These were to:

- Improve methods of collecting and analyzing meter-tampering data, and develop strategies to identify and discourage meter tampering, and
- Establish a “catch a crook” program and hotline to encourage citizens to report instances of meter tampering, and publish the hotline on the web site.

AE concurred with both of these recommendations and efforts are underway to implement them even though they were not ranked as a



high priority or likely to have an immediate effect on the reduction of bad debt.

The Revenue Measurement division of AE has started a systematic review of its Current Diversion and Revenue Protection program. This review will document current practices, benchmark against other utilities, and find opportunities for improvement. The Revenue Measurement and Control Process Manager has partnered with AE's Corporate Consulting Services to provide the following deliverables:

1. Current state documentation identifying all processes and work flows within the current diversion unit,
2. Benchmarking report capturing best practices and efficiency opportunities from peer utilities,
3. Recommend future processes for current diversion detection, investigation, prosecution, and reporting,
4. Data analysis of current diversion's workload, production, revenues, costs, and staffing demands, and
5. A comprehensive implementation plan for all accepted recommendations.

In addition, the Automated Meter Reading (AMR) System that is being implemented in certain locations presents real time energy use data and tampering information. AMR also allows AE to bill a customer for actual consumption even if the customer tampers with the meter.

AE does not agree with certain aspects of MJLM's "catch a crook" recommendation such as the establishment of a hotline dedicated to the reporting of meter tampering. However, the management of the Revenue Measurement division states that they are implementing the intent of the recommendation by planning a program that would educate citizens about the risks of meter tampering.

## **Recommendation**

06. The AE Revenue Measurement and Control Process Manager should ensure that instructions for consumers who wish to report meter tampering include appropriate contact information and are integrated in educational campaigns to prevent meter tampering.

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**MANAGEMENT RESPONSE: CONCUR**

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Revenue Management is partnering with Corporate Communications and Corporate Consulting Services in the development of a bill stuffer that will accompany all AE billings. The bill stuffer will be used to educate customers on the dangers of meter tampering and encourage the reporting of theft of electrical service to AE. This bill stuffer will be distributed to customers on a periodic basis.

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**Austin Energy is in the process of addressing recommendations made in the credit and collections policy area.**

To address recommendations in the credit and collections policy area, AE is drafting proposed changes to the Utility Service Regulations to tighten customer requirements. These changes are still in draft form and have not yet been presented to City Council for approval.

**AE is drafting proposed changes to the Utility Service Regulations that would place more stringent requirements on customers who want to re-connect service.** Some of the recommendations made by MJLM would require AE to make changes to the Utility Service Regulations of the City Code. The recommendations addressed several types of account scenarios including:

- requiring customers to pay a security deposit to re-connect service that has been disconnected for nonpayment,
- requiring customers to pay delinquent balances in full before connecting new service, and
- allowing letters of guarantee as an additional form of credit security for customers who cannot pay the deposit.

Of the three recommendations in this area, AE concurred with one that they:

Enforce language, in the delinquent payment notice, that requires customers to pay a security deposit to reconnect service that has been disconnected for nonpayment.

AE has drafted changes to the Utility Service Regulations that, if approved, would require customers to maintain credit security, such as deposits, on a re-initiated account. Regulations currently state that the City *may* require customers to maintain credit security.

They did not agree with other recommendations that they:

- Allow letters of guarantee as an additional form of credit security for customers who are unable to meet security deposit requirements, and
- Discontinue balance transfers, and require customers to pay delinquent balances in full before connecting new electric service.

Under current utility service regulations, customers can acquire service through a number of means including: paying a deposit, obtaining a credit reference from a consumer reporting agency, and providing an irrevocable letter of credit. Proposed changes would limit the means to secure service, requiring a cash deposit, letter of reference from another utility (with no past due balances in twelve months), or a currently maintained account with the City. However, a letter of guarantee would not be included as an option since AE views this as going against their desire to mitigate risk and simplify processes.

Even though AE does not concur with the recommendation to discontinue balance transfers, management agrees that it might be worth implementing once they have had more time to recover from collection moratoriums. Currently, customers can enter into a deferred payment arrangement (DPA) and are not required to pay previous balances in full to restore service. AE is planning to bring proposed changes to the Utility Service Regulations for Council approval that would require customers to pay their bills in full, but still allow the City to enter into a DPA at AE's choosing.

## **ISSUE FOR FURTHER STUDY**

### Deferred Payment Arrangements

While we were observing call takers, we noticed that customers have to be reminded to include the amount of any DPA on top of their current bill. The DPA amount is not automatically included on their bills. The customer must remember month to month to add the extra amount to their payment. This practice may impact delinquencies if customers forget to add the correct amount to their payment. Also, additional resources may be consumed if customers have to be notified of their delinquencies, and a new DPA is set up with them.


## **APPENDIX A MANAGEMENT RESPONSE**

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## MEMORANDUM

TO: Steven L Morgan, City Auditor

FROM: Juan Garza, General Manager 

DATE: April 17, 2003

RE: Response to City Audit Follow-up on McConnell, Jones, Lanier and Murphy (MJLM) Recommendations

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Austin Energy appreciates the work of the City Auditor's Office in reviewing the recommendations proposed by the independent audit firm McConnell, Jones, Lanier and Murphy relating to Austin Energy's Account Collections Process.

We are in general agreement with the findings of the report. Of the 6 Recommendations, we concur with five and partially concur with the sixth. Our responses are included in the attached matrix.

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**ACTION PLAN**  
**Austin Energy Account Collections Follow-Up Audit Report**

| Rec. Recommendation Text #   | Concurrence | Proposed Strategies for Implementation  | Status of Strategies | Responsible Person / Phone Number | Proposed Implementation Date |
|--|-------------|---|----------------------|-----------------------------------|------------------------------|
| 1<br>The AE Customer Service Process Manager should continue to obtain electronic statement files from the collection agency, along with paper documents, to quickly and easily review all charges and research the accounts that fall into the higher fee categories. | Concur      | Austin Energy has incorporated the review of electronic statement files into the verification of collection agency billings. In addition, the contract and project management duties associated with this process have been split between Credit Collections and AE's Contract Management Section to create a clear separation of duties. Credit Collections will continue to perform the project management duties associated with the process while Contract Management will handle all contractual issues. | Implemented          | Cindy Silva<br>505-3569           | Implementation Complete      |
| 2<br>To facilitate review of charges, the AE Customer Service Process Manager should consult with individuals in the AE's IT division to determine if there is a CIS query output that could be matched to electronic statements provided by the collection agency.    | Concur      | Meetings have been scheduled with AE's IT staff to discuss the feasibility of reformatting the electronic file so it can be used as a comparison file against CIS.  | Planned              | Cindy Silva<br>505-3569           | June 1, 2003                 |

Concurrence: concur, partially concur, or disagree.  
Status of strategies: planned, underway, or implemented.



|   |  |                  |   |          |                          |             |
|---|--|------------------|---|----------|--------------------------|-------------|
| 3 | To ensure all accounts have a discontinued date or date of last charge, the AE Customer Service Process Manager should conduct an audit of accounts that are transmitted to the collection agency periodically.  | Concur           | We have requested a query from AE's IT section that identifies any missing data fields so that they can be populated and verified prior to accounts being referred. This additional step should serve as a verification procedure within the process thus eliminating the need for periodic audits.   | Planned  | Cindy Silva<br>505-3569  | May 1, 2003 |
| 4 | The AE Customer Service Process Manager should evaluate the cost/benefit of temporarily assigning one full-time employee to the project of matching inactive and active accounts and transferring balances when appropriate to reduce the number of inactive accounts with inactive delinquent balances. | Partially concur | We understand the importance of consolidating old account balances and current accounts and believe this undertaking to be extremely valuable. On average over the last 15 months, we have transferred over \$638,000 per month. However, the volume of transfers has significant impact on the Contact Center, increases the number of deferred payment agreements, administrative hearings, and increases active accounts receivable. We therefore feel that the assignment of one full-time employee to perform this task would not be in the best interest of AE. We are however developing a plan to concentrate on transfers that will balance negative impacts with positive outcomes. | Underway | Judi Rebmann<br>505-3546 | Ongoing     |

Concurrence: concur, partially concur, or disagree.  
Status of strategies: planned, underway, or implemented.

|   |   |        |   |          |                           |               |
|---|---|--------|---|----------|---------------------------|---------------|
| 5 | The AE Customer Service Process Manager should develop and institute a strategy for transferring inactive account balances to active account balances when appropriate for commercial customers and property management companies.                    | Concur | The transferring of inactive accounts balances to active accounts is already underway. Several property management companies and major apartment complexes have been reconciled and the accounts have been paid. We are working on large industrial accounts in conjunction with the Key Account Reps. We propose to implement a similar procedure with the Small Commercial Team and with the new multi-family team. | Underway | Judi Rebmann<br>505-3546  | Ongoing       |
| 6 | The AE Revenue Measurement & Control Process Manager should ensure that instructions for consumers who wish to report meter tampering include appropriate contact information and are integrated in educational campaigns to prevent meter tampering. | Concur | Revenue Management is partnering with Corporate Communications and Corporate Consulting Services in the development of a bill stuffer that will accompany all AE billings. The bill stuffer will be used to educate customers on the dangers of meter tampering and encourage the reporting of theft of electrical service to AE. This bill stuffer will be distributed to customers on a periodic basis.             | Underway | Royal Johnson<br>972-7413 | June 16, 2003 |

Concurrence: concur, partially concur, or disagree.  
Status of strategies: planned, underway, or implemented.

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**APPENDIX B**  
**LIST OF MJLM'S RECOMMENDATIONS INCLUDING**  
**REPORTED AND TESTED STATUS**

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## APPENDIX B

### LIST OF MJLM'S RECOMMENDATIONS INCLUDING REPORTED AND TESTED STATUS

| <u>Recommendation</u> |  | <u>Austin<br/>Energy<br/>Reported<br/>Status</u> | <u>OCA Tested<br/>Status</u>               |
|-----------------------|--|--|--|
| 1                     | Reeducate the public and City Council members of the need for Austin Energy to develop and enforce sound credit and collections practices.   | In progress                                      | Not tested                                 |
| 2                     | Delineate and communicate clearer lines of authority, responsibility, and accountability between Austin Energy's staff and City Council members.   | Done   | Not tested                                 |
| 3                     | Promote AE's internal credit and collections procedures and the appeals process, outlined in Section 18-4-075 of the Utility Service Regulations, as adequate for resolving customer complaints.   | In progress                                      | Not tested                                 |
| 4                     | Develop a routine procedure for CSRs to inform customers of assistance programs that might help them pay their utility bills.  | Done   | Not tested                                 |
| 5**                   | Eliminate notices and shorten grace periods to compress the time between when an account becomes delinquent and when it is referred to the collection agency.                                      | In progress                                      | Underway                                   |
| 6                     | Revise the requirement that collections activity on inactive accounts cease after 180 days, so that more time is available for the collection agency to pursue accounts.                           | Not Concur                                       | Not tested                                 |
| 7                     | Conduct a periodic audit of the collection agency contract to ensure that the collection agent is not holding accounts longer for the purpose of obtaining higher commission.                      | Not Concur                                       | Non-concurrence but limited implementation |
| 8                     | Benchmark Customer Call Center operations against best-in-class standards, and implement improvements to increase the department's response capability.  | In progress                                      | Not tested                                 |
| 9                     | Reduce call center volume by offering bill payment, bill presentation, and DPA arrangements online.  | In progress                                      | Not tested                                 |
| 10                    | Strengthen and enforce Apartment Read and Change Program (ARCP) contract provisions that make the apartment owner liable for late, incomplete, and inaccurate information on the application form. | Not Concur                                       | Not tested                                 |
| 11                    | Enhance the call center's Interactive Voice Response system to allow ARCP tenants to directly inform AE when they move from one apartment to another.  | Not Concur                                       | Not tested                                 |

SOURCE: AE spreadsheets tracking recommendations dated 9/2002 and 3/2003, and auditor assessment.

Note: \*\* recommendations identified by AE as a priority and most likely to have an immediate effect on the reduction of bad debt. OCA tested shaded recommendations.

| <u>Recommendation</u> |  | <u>Austin<br/>Energy<br/>Reported<br/>Status</u> | <u>OCA<br/>Tested<br/>Status</u> |
|-----------------------|--|--|----------------------------------|
| 12                    | Petition City Council to revise section 18-4-252 of the Utility Service Regulations to say, "a representative of the city will give at least final 24-hour notice of service termination."   | In progress                                      | Not tested                       |
| 13                    | Explore using Interactive Voice Response (IVR) technology and mailing final disconnection notices as alternatives to hand delivering 24-hour door hangers.   | In progress                                      | Not tested                       |
| 14                    | Focus Top 200 collection efforts by publishing, at least quarterly, the names of state and local governmental agencies that have undisputed delinquent balances.   | Not Concur                                       | Not tested                       |
| 15**                  | Establish written credit and collections policies and procedures for key accounts.   | Done   | Not tested                       |
| 16                    | Initiate a yearlong pilot program to offer commission-based fees to utility billing analysts in Credit and Collections who begin to conduct outbound collection calls.   | Not Concur                                       | Not tested                       |
| 17**                  | Enforce language, in the delinquent payment notice, that requires customers to pay a security deposit to reconnect service that has been disconnected for nonpayment.  | In progress                                      | Underway                         |
| 18                    | Allow letters of guarantee as an additional form of credit security for customers who are unable to meet security deposit requirements.  | Not Concur                                       | Not Implemented                  |
| 19**                  | Discontinue balance transfers, and require customers to pay delinquent balances in full before connecting new electric service.  | Not Concur                                       | Not Implemented                  |
| 20**                  | Increase collection efforts in the seven highly delinquent zip codes identified in the demographic analysis.   | Done   | Implemented Citywide Efforts     |
| 21                    | Adopt revised credit and collections policies and procedures based on the input obtained from the peer benchmarking and Customer Service Representative (CSR) surveys. Develop and implement clear policy on the use and enforcement of DPA error tracking data. | Done   | Not tested                       |
| 22                    | Obtain grassroots input from CSRs in advance of future changes to credit and collections policies and procedures.  | Done   | Not tested                       |
| 23                    | Enforce compliance with the revised interim credit and collections policies and procedures through linking employee evaluations, compensation, and promotions to compliance with credit and collections policies and procedures.                                 | In progress                                      | Not tested                       |
| 24                    | Remove the term "interim" from the Guidelines.   | Done   | Not tested                       |
| 25                    | Stabilize the DPA policy by publishing one version of the policy every six months.   | Done   | Not tested                       |

SOURCE: AE spreadsheets tracking recommendations dated 9/2002 and 3/2003, and auditor assessment.

Note: \*\* recommendations identified by AE as a priority and most likely to have an immediate effect on the reduction of bad debt. OCA tested shaded recommendations.

| <u>Recommendation</u> |   | <u>Austin<br/>Energy<br/>Reported<br/>Status</u> | <u>OCA<br/>Tested<br/>Status</u>               |
|-----------------------|---|--|--|
| 26                    | Explore the benefits and costs of allowing for the DPA payment date to be different from the bill due date.   | Done   | Not tested                                     |
| 27                    | Prepare to use AE's current IVR technology that allows customers to set up DPA's via the telephone with data entered directly into the appropriate CIS database.                                  | Not Concur                                       | Not tested                                     |
| 28**                  | Run a query that matches active and inactive accounts to identify opportunities to collect inactive balances from active customers.   | Done   | Implemented                                    |
| 29**                  | Incorporate into future new systems or system modifications a requirement that the system perform a check of active versus inactive accounts and verify a customer's identity through LexisNexis. | Not Concur                                       | Non-concurrence but Implemented Manual Process |
| 30                    | Run a query that matches employee records against delinquent account receivable records, and develop a policy to discourage delinquent employee balances if the query reveals a problem.          | In progress                                      | Tested Separately                              |
| 31                    | Establish and maintain credit and collections thresholds based upon the estimated cost of collection activities.  | Done   | Not tested                                     |
| 32                    | Provide team-building training to foster understanding, trust, and cooperation among supervisors and employees of the Customer Call Center and the Credit and Collections Department.             | Done   | Not tested                                     |
| 33                    | Provide additional payment and consumption control options for special-case customers who cannot pay their electric bills or who have exceeded established DPA limits.                            | Done   | Not tested                                     |
| 34                    | Improve methods of collecting and analyzing meter-tampering data, and develop strategies to identify and discourage meter tampering.  | In progress                                      | Underway                                       |
| 35                    | Establish a "catch a crook" program and hotline to encourage citizens to report instances of meter tampering, and publish the hotline on the web site.  | In progress                                      | Underway                                       |
| 36                    | Install additional random access memory in Credit and Collections Department personal computers to enhance processing speed.  | Done   | Implemented                                    |
| 37                    | Incorporate billing, payment processing, and credit/collection technologies into future systems or enhancements to the current system.  | Planned  | Planned  |
| 38                    | Abolish the practice of sending delinquency notices on inactive accounts with insignificant balances.   | Done   | Implemented                                    |
| 39                    | Establish a practice of either consolidating insignificant account balances with current bills or segregating them from active accounts receivable after they have been deemed uncollectible.     | In progress                                      | Underway                                       |

SOURCE: AE spreadsheets tracking recommendations dated 9/2002 and 3/2003, and auditor assessment.

Note: \*\* recommendations identified by AE as a priority and most likely to have an immediate effect on the reduction of bad debt. OCA tested shaded recommendations.



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**APPENDIX C**  
**ELIMINATION OF ACTIVITIES IN CURRENT COLLECTIONS**  
**PROCESS**

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## APPENDIX C

### ELIMINATION OF ACTIVITIES IN CURRENT COLLECTIONS PROCESS

| Activity Eliminated  | Explanation   | Days Saved   | Status <sup>1</sup> |
|--|---|--------------|---------------------|
| <b>Days in Current Process</b>   |   | <b>218</b>   |                     |
| 1. Three-day grace period to pay initial bill                                      | Customers have 22 days until the due date to pay. An additional three days is unnecessary. Ten of the peer utilities that participated in the telephone survey give customers a 15-day period to pay their electric bills. Colorado Springs Utilities and Tacoma Public Utilities – Light Division allow 10 days, TXU allows 13 days, and Portland General Electric requires payment upon receipt; the bill is past-due 15 days after receipt. Austin Energy allows customers 22 days from the bill date plus a 3-day grace period before commencing collection activities. | (3)          | U                   |
| 2. Ten-day grace period to respond to first delinquency notice                     | Although a grace period to respond to the first delinquency notice is typical, the grace period could be cut to seven business days.  | (3)          | U                   |
| 3. Monitoring of accounts for consumption or payments after disconnect             | Disconnected customers receive a bill for electric service provided between the last bill and the disconnect date (arrears bill). This bill should state that the account will be closed and could be turned over to a collection agency if not paid by a specified date. A 90-day monitoring period is excessive and should be cut to no more than 30 days.  | (60)         | P <sup>2</sup>      |
| 4. Sending final bill after 90-day monitoring period to set up account as inactive | Since the account has already been disconnected, the arrears bill should be the last bill and should inform the customer of the payment obligations. A “final” bill setting up the account’s closing is redundant and the grace period associated with this bill could be eliminated.   | (25)         | U                   |
| 5. First delinquency notice after account becomes inactive                         | Since the customer was notified on the “final” bill of the payment obligation, the next notice after the account becomes inactive should be a demand letter. The first delinquency notice and its associated grace period could be eliminated.  | (26)         | U                   |
| 6. Second delinquency notice after account becomes inactive                        | Since the customer was notified on the “final” bill of the payment obligation, the next notice after the account becomes inactive should be a demand letter. The second notice and its associated grace period could be eliminated.   | (26)         | I <sup>3</sup>      |
| 7. Grace period after customer receives demand letter                              | Since the customer has ignored all demands for payment up to this point, the 10-day grace period should be cut to 5 business days. If payment is not received within this time frame, the account should be referred to the collection agency.  | (5)          | U                   |
| <b>Total Days Saved</b>  |   | <b>(148)</b> |                     |
| <b>Potential Minimum Process Days</b>  |   | <b>70</b>    |                     |

SOURCE: Adapted from MJLM Collections Process Review, January 2002.

<sup>1</sup> “U” – Under Consideration, “P” – Partially Implemented, “I” – Implemented.

<sup>2</sup> Austin Energy has eliminated 30 of the recommended 60 days.

<sup>3</sup> Austin Energy has eliminated 26 days.